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BED Audit Recommendation Fiscal Years 2010-2014

1. Scope of Audit

An examination of the financial records of the Burlington Electric Department and the Joseph C. McNeil Generating Station in accordance with generally accepted auditing standards. The examination shall be for the purpose of expressing an opinion on the financial statements in accordance with generally accepted accounting principles.


2. Reports

- A. Financial statements consisting of the auditor's opinion, Management Discussion and Analysis (MDA's) as required by GASB34, statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and notes to the financial statements for the Department.
- B. Special purpose financial statements consisting of the auditor's opinion, statements of assets, statements of station operating expenses, owners' equity and liabilities, statements of changes in owners' equity, and notes to the financial statements for the Joseph C. McNeil Generating.
- C. A Management Letter, if considered necessary, containing specific observations and recommendations of the auditor relating to internal control, accounting practices, policies, systems, procedures and other notes for the Burlington Electric department and the Joseph C. McNeil Generating Station.
- D. A Letter to the Board of Electric Commissioners explaining the auditor's and management's responsibility during the audit, audit adjustments (if any) and the working relationship between management, staff and the auditors.

3. Meetings

- A. A conference with the Board of Electric Commissioners to review the financial statements of the Burlington Electric Department and Management Letter (if applicable).
- B. A conference (if requested) with the Joint Owners of the Joseph C. McNeil Generating Station to review the financial statements and management letter (if applicable).

4. Terms and Conditions

- A. Standard terms and conditions;
- B. No change from the last RFP;
- C. Included as part of the RFP in lieu of a  contract

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5. Recommendations

BED recommends the selection of KPMG as our auditor for the next five years. The only other firm to bid was Bollam, Sheedy, Torani, & Co, LLP, CPAs ("BST"). Although BST's fee proposal was significantly less than KPMG, there were numerous reasons for our recommendation to continue with KPMG.

- A. BST is not yet registered with the Vermont State Board of Accountancy, and was not at the time of the bid. This is a requirement for accounting firms that want to conduct municipal audits in Vermont. If we accepted, we would have no assurance as to when or if the State of Vermont would approve their registration. Our audit fieldwork typically begins in mid-April, making any delay problematic. In addition, there is concern about the licensing of the CPA's in Vermont. The proposal only mentioned one individual.

KPMG is registered with the State of Vermont, and the Partner and Audit Manager are licensed in Vermont.

- B. BST has not audited other Vermont municipalities and utilities. Vermont has a unique regulatory environment and specific requirements when it comes to electric utilities. This would include rate filings, regulatory asset accounting, sinking fund or economic depreciation, and other matters. Missing this experience would be a big challenge to overcome.

KPMG is (or has been) the auditor on many of the electric utilities in Vermont, including VPPSA (Vermont Public Power Supply Authority), Velco, and other private and municipal electric utilities in Vermont.

- C. We have a concern about BST's ability and expertise. For example, at the pre-proposal informational meeting, the BST representative indicated a lack of familiarity with government auditing standards on the consolidation of the Burlington Electric Department audit with the City financials.

KPMG has been our audit firm for the past ten years and we have had no issues with the quality of staff and the audit itself. KPMG is one of the "Big Four" national firms located in Colchester. They have experts from other offices across the country that can be made available to them and us.

- D. We have a concern about the quality of the audit. The rates per hour for the staff of BST are comparable to the rates for KPMG staff. In fact, the "Associates" (who put in the most hours on the audit) pay rate is higher than at KPMG. Therefore, they are proposing to do the audit in significantly less time and expense than our current, more experienced audit firm. Given the start-up costs and time to be incurred, as well as the significant travel and overnight expenses (Albany, NY), we are concerned that the quality of the audit could be sacrificed to stay within budget.

KPMG's fee proposal is based upon actual hours incurred. They have completed the last five years of audits on time and with the highest quality. They are a local firm, so would not incur travel and overnight expenses. We are very comfortable with the hours they have included in their proposal. Conversely, BST did not include information on the number of hours

assumed. In addition, BST states "this proposal assumes a high level of assistance will be supplied by your personnel, including the preparation of schedules and analyses of accounts". We are concerned that they may require more staff time than previously required, thus costing more internally.

- E. The proposal from KPMG met all of the requirements and expectations in the audit RFP. The presentation was exceptional.
- F. The cost proposal from KPMG was in line with expectations. The fiscal year 2009 audit cost BED \$55,900 for BED and \$12,600 for the Mcneil Station. The proposal for Fiscal Year 2010 is \$56,000 (a \$100 increase) for BED and \$15,000 for the Mcneil Station. These are dollar levels we assume in our budget for fiscal year 2010. The Mcneil Station costs went up more than BED in that we are now accounting for Renewable Energy Credits ("RECs"), and this requires more time on their end. The total of the two audits rose 3.6% over fiscal year 2009. The costs for the remaining four (4) years of the contract rise approximately 5% per year.
- G. The City's Purchasing Policy and BED's purchasing practice has been to put a premium on awarding contracts to Burlington based contractors. After that a preference for Chittenden County and then to State of Vermont contractors. BST is a New York based company.

KPMG is a local, Chittenden County company.